

TOWNSHIP OF ELK  
Sanilac County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Elk	<b>County</b> Sanilac
<b>Audit Date</b> March 31, 2006	<b>Opinion Date</b> May 20, 2006	<b>Date Accountant Report Submitted to State:</b> July 18, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
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<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.			

TOWNSHIP OF ELK  
Sanilac County, Michigan

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis	2-3
Basic Financial Statements:	
Government-wide Financial Statements:	
Government-wide Statement of Net Assets	4
Government-wide Statement of Activities	5
Fund Financial Statements:	
Governmental Fund:	
Balance Sheet	6
Reconciliation of Balance Sheet of Governmental Fund to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8-9
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Fund to the Statement of Activities	10
Notes to Financial Statements	11-17
Required Supplemental Information:	
Budgetary Comparison Schedule – General Fund	18-19
Budgetary Comparison Schedule – Road Fund	20
Budgetary Comparison Schedule – Library Fund	21
Budgetary Comparison Schedule – Cemetery Operation Fund	22
Other supporting information:	
General Fund Expenditures by Detailed Account	23-24
Current Tax Collection Fund Statement of Changes in Assets and Liabilities	25

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

May 30, 2006

To the Township Board  
Township of Elk  
Sanilac County, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Township of Elk, Sanilac County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Elk's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Township of Elk, Sanilac County, Michigan as of March 31, 2006, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of April 1, 2005.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & Co., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF ELK  
Sanilac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Elk covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$690,219.92 for governmental activities.

Overall revenues were \$302,742.27. Governmental activities had a \$65,852.05 increase in net assets.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present governmental activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

All of the activities of the Township are reported as governmental activities. This includes the General Fund, Road Fund, Library Fund, Cemetery Operation Fund, and Cemetery Perpetual Care Fund.

TOWNSHIP OF ELK  
Sanilac County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental funds: All of the Township's activities are included in the governmental category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental activities include the General Fund, Road Fund, Library Fund, Cemetery Operation Fund, and Cemetery Perpetual Care Fund.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in the governmental activities remains stable.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. Total incurred expenses for the year were \$191,144.63.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$76,225.00 in capital assets this year.

The Township has no debt at this time.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

There are no known factors that will affect future operations.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Townships finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Supervisor, Michael Palterso by calling (810)378-5647.

TOWNSHIP OF ELK  
Sanilac County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2006

	<u>Governmental Activities</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	284 916 46
Investments	37 978 58
Petty cash	60 00
Taxes receivable	<u>7 566 71</u>
Total Current Assets	<u>330 521 75</u>
NON-CURRENT ASSETS:	
Capital Assets	604 283 00
Less: Accumulated Depreciation	<u>(244 084 83)</u>
Total Non-current Assets	<u>360 198 17</u>
TOTAL ASSETS	<u><u>690 719 92</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Deposits payable	<u>500 00</u>
Total Current Liabilities	<u>500 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	360 198 17
Reserved for cemetery	37 978 58
Unrestricted	<u>292 043 17</u>
Total Net Assets	<u>690 219 92</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>690 719 92</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ELK  
Sanilac County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

		Program Revenue	
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	12 337 92	-	-
General government	64 260 85	9 123 62	-
Public safety	61 518 04	15 275 00	76 225 00
Public works	51 886 87	-	-
Culture and recreation	<u>46 886 54</u>	<u>16 688 32</u>	<u>-</u>
Total Governmental Activities	<u>236 890 22</u>	<u>41 086 94</u>	<u>76 225 00</u>
General Revenues:			
Property taxes			
State revenue sharing			
Interest			
Miscellaneous			
Total General Revenues			
Change in net assets			
Net assets, beginning of year			
Net Assets, End of Year			

The accompanying notes are an integral part of these financial statements.



Governmental  
Activities  
Net (Expense)  
Revenue and  
Changes in Net  
Assets

(12 337 92)

(55 137 23)

29 981 96

(51 886 87)

(30 198 22)

(119 578 28)

101 521 43

70 486 32

9 460 13

3 962 45

185 430 33

65 852 05

624 367 87

690 219 92

TOWNSHIP OF ELK  
Sanilac County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Library</u>
<u>Assets</u>			
Cash in bank	187 415 61	1 218 95	781 86
Investments	-	-	-
Petty cash	-	-	60 00
Taxes receivable	3 174 42	4 392 29	-
Due from other funds	<u>40 222 28</u>	<u>48 023 79</u>	<u>-</u>
Total Assets	<u>230 812 31</u>	<u>53 635 03</u>	<u>841 86</u>
<u>Liabilities and Fund Equity</u>			
Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund equity:			
Fund balances:			
Reserved for cemetery	-	-	-
Unreserved:			
Undesignated	<u>230 812 31</u>	<u>53 635 03</u>	<u>841 86</u>
Total fund equity	<u>230 812 31</u>	<u>53 635 03</u>	<u>841 86</u>
Total Liabilities and Fund Equity	<u>230 812 31</u>	<u>53 635 03</u>	<u>841 86</u>

The accompanying notes are an integral part of these financial statements.

<u>Cemetery Operation</u>	<u>Cemetery Perpetual Care</u>	<u>Total</u>
7 253 97	-	196 670 39
-	37 978 58	37 978 58
-	-	60 00
-	-	7 566 71
-	-	88 246 07
<u>7 253 97</u>	<u>37 978 58</u>	<u>330 521 75</u>
<u>500 00</u>	<u>-</u>	<u>500 00</u>
<u>500 00</u>	<u>-</u>	<u>500 00</u>
-	37 978 58	37 978 58
<u>6 753 97</u>	<u>-</u>	<u>292 043 17</u>
<u>6 753 97</u>	<u>37 978 58</u>	<u>330 021 75</u>
<u>7 253 97</u>	<u>37 978 58</u>	<u>330 521 75</u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	330 021 75
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	604 283 00
Accumulated depreciation	<u>(244 084 83)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>690 219 92</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ELK  
Sanilac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Library</u>	<u>Cemetery Operation</u>
Revenues:				
Property taxes	30 176 13	52 416 08	18 929 22	-
Licenses and permits	-	-	16 688 32	-
Federal grant	76 225 00	-	-	-
State revenue sharing	67 237 00	-	3 249 32	-
Charges for services	24 098 62	-	-	300 00
Interest	7 684 24	297 22	45 74	241 96
Miscellaneous	1 135 15	-	1 163 30	1 664 00
Total revenues	<u>206 556 14</u>	<u>52 713 30</u>	<u>40 075 90</u>	<u>2 205 96</u>
Expenditures:				
Legislative:				
Township Board	12 337 92	-	-	-
General government:				
Supervisor	2 720 72	-	-	-
Elections	1 022 51	-	-	-
Clerk	8 786 40	-	-	-
Assessor	10 000 00	-	-	-
Board of Review	746 99	-	-	-
Treasurer	9 445 77	-	-	-
Cemetery	-	-	-	5 831 56
Building and grounds	14 774 90	-	-	-
Unallocated	7 829 00	-	-	-
Public safety:				
Police protection	44 220 21	-	-	-
Planning and zoning	810 00	-	-	-
Public works:				
Highways and Streets	624 75	49 866 69	-	-
Drains at large	1 395 43	-	-	-
Culture and recreation:				
Library	205 03	-	46 681 51	-
Capital outlay	76 225 00	-	-	-
Total expenditures	<u>191 144 63</u>	<u>49 866 69</u>	<u>46 681 51</u>	<u>5 831 56</u>
Excess (deficiency) of revenues over expenditures	15 411 51	2 846 61	(6 605 61)	(3 625 60)
Other financing sources (uses)				
Operating transfers in	-	-	5 522 00	1 282 50
Operating transfers out	(5 522 00)	-	-	-
Total other financing sources (uses)	<u>(5 522 00)</u>	<u>-</u>	<u>5 522 00</u>	<u>1 282 50</u>

The accompanying notes are an integral part of these financial statements.

<u>Cemetery Perpetual Care</u>	<u>Total</u>
-	101 521 43
-	16 688 32
-	70 486 32
-	76 225 00
-	24 398 62
1 190 97	9 460 13
-	3 962 45
<u>1 190 97</u>	<u>302 742 27</u>
-	12 337 92
-	2 720 72
-	1 022 51
-	8 786 40
-	10 000 00
-	746 99
-	9 445 77
-	5 831 56
-	14 774 90
-	7 829 00
-	44 220 21
-	810 00
-	50 491 44
-	1 395 43
-	46 886 54
-	76 225 00
-	<u>293 524 39</u>
1 190 97	9 217 88
-	6 804 50
<u>(1 282 50)</u>	<u>(6 804 50)</u>
<u>(1 282 50)</u>	<u>-</u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Road</u>	<u>Library</u>	<u>Cemetery Operation</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	9 889 51	2 846 61	(1 083 61)	(2 343 10)
Fund balances, April 1	<u>220 922 80</u>	<u>50 788 42</u>	<u>1 925 47</u>	<u>9 097 07</u>
Fund Balances, March 31	<u>230 812 31</u>	<u>53 635 03</u>	<u>841 86</u>	<u>6 753 97</u>

The accompanying notes are an integral part of these financial statements.

<u>Cemetery Perpetual Care</u>	<u>Total</u>
------------------------------------	--------------

(91 53)	9 217 88
---------	----------

<u>38 070 11</u>	<u>320 803 87</u>
------------------	-------------------

<u>37 978 58</u>	<u>330 021 75</u>
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TOWNSHIP OF ELK  
Sanilac County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year ended March 31, 2006

NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 9 217 88

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(19 590 83)
Capital Outlay	<u>76 225 00</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>65 852 05</u></u>
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The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2005

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Elk, Sanilac County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Elk. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the Township's government-wide activities are considered governmental activities.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Permanent Fund

The Cemetery Perpetual Care Fund is used to account for the care of the cemetery.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The 2005 tax roll millage rate was 2.2790 mills, and the taxable value was \$36,244,895.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$1,500.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Building	50 years
Equipment	10-30 years

Compensated Absences (Vacation and Sick Leave)

Employees are not allowed to accumulate vacation and sick pay.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective April 1, 2005, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$360,198.17.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 2 – Budgets and Budgetary Accounting (continued)

3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>285 779.78</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 3 – Deposits and Investments (continued)

	<u>Bank Balances</u>
Insured (FDIC)	201 124 38
Uninsured and Uncollateralized	<u>95 130 52</u>
Total Deposits	<u>296 254 90</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Townships or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
<u>Investment Type</u>				
Risk-Categorized:				
Operating Funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Nonrisk-Categorized:				
Financial Institution Pooled Funds				<u>37 978 58</u>
Total Investments				<u>37 978 58</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

**Note 4 – Capital Assets**

Capital asset activity of the Township's Governmental activities for the current year was as follows:

	Balance 4/1/05	Additions	Deletions	Balance 3/31/06
<u>Governmental Activities:</u>				
Building	155 156 00	-	-	155 156 00
Land	3 350 00	-	-	3 350 00
Equipment	369 552 00	76 225 00	-	445 777 00
 Total	 528 058 00	 76 225 00	 -	 604 283 00
Accumulated Depreciation	(224 494 00)	(19 590 83)	-	(244 084 83)
 Net Capital Assets	 303 564 00	 56 634 17	 -	 360 198 17

**Note 5 – Pension Plan**

The Township does not have a pension plan.

**Note 6 – Deferred Compensation Plan**

The Township of Elk offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plan was held in trust, as described in IRC Section 457 (g) for the exclusive benefit of the participants and their beneficiaries. The custodian thereof for this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB statement No. 32, plan balances and activities are not reflected in the Townships of Elk's financial statements.

**Note 7 – Risk Management**

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 8 – Building Permits**

The Township of Elk does not issue building permits. Building permits are issued by the County of Sanilac.

TOWNSHIP OF ELK  
Sanilac County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 9 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>40 222 28</u>	Current Tax Collection	<u>40 222 28</u>
Road	<u>48 023 79</u>	Current Tax Collection	<u>48 023 79</u>
Total	<u>88 246 07</u>	Total	<u>88 246 07</u>

Note 10 – Transfers In and Transfers Out

For the fiscal year ended, March 31, 2006, the Township made the following interfund transfers:

<u>Fund</u>	<u>Transfer In</u>	<u>Fund</u>	<u>Transfer Out</u>
Cemetery Operation	<u>1 282 50</u>	Cemetery Perpetual Care	<u>1 282 50</u>
Library	<u>5 522 00</u>	General	<u>5 522 00</u>
Total	<u>6 804 50</u>	Total	<u>6 804 50</u>



TOWNSHIP OF ELK  
Sanilac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	28 863 32	28 863 32	30 176 13	1 312 81
State revenue sharing	53 717 00	53 717 00	67 237 00	13 520 00
Federal grant	76 225 00	76 225 00	76 225 00	-
Charges for services	23 964 67	23 964 67	24 098 62	133 95
Interest	3 000 00	3 000 00	7 684 24	4 684 24
Miscellaneous	<u>2 909 00</u>	<u>2 909 00</u>	<u>1 135 15</u>	<u>(1 773 85)</u>
Total revenues	<u>188 678 99</u>	<u>188 678 99</u>	<u>226 556 14</u>	<u>17 877 15</u>
Expenditures:				
Legislative:				
Township Board	16 445 75	16 445 75	12 337 92	(4 107 83)
General government:				
Supervisor	2 965 38	2 729 43	2 720 72	(8 71)
Elections	3 500 00	3 500 00	1 022 51	(2 477 49)
Clerk	9 115 89	9 115 89	8 786 40	(329 49)
Assessor	10 000 00	10 000 00	10 000 00	-
Board of Review	1 500 00	1 500 00	746 99	(753 01)
Treasurer	9 335 55	9 455 55	9 445 77	(9 78)
Building and grounds	18 300 00	18 600 00	14 774 90	(3 825 10)
Unallocated	8 000 00	8 000 00	7 829 00	(171 00)
Public safety:				
Fire protection	82 050 00	82 049 95	44 220 21	(37 829 74)
Planning and zoning	1 000 00	1 000 00	810 00	(190 00)
Public works:				
Highways and streets	73 924 49	73 924 49	624 75	(73 299 74)
Drains at large	15 000 00	15 000 00	1 395 43	(13 604 57)
Culture and recreation:				
Library	4 000 00	4 716 00	205 03	(4 510 97)
Contingency	24 400 99	23 500 99	-	(23 500 99)
Capital outlay	<u>77 225 00</u>	<u>77 225 00</u>	<u>76 225 00</u>	<u>(1 000 00)</u>
Total expenditures	<u>356 763 05</u>	<u>343 263 05</u>	<u>191 144 63</u>	<u>(165 618 42)</u>
Excess (deficiency) of revenues over expenditures	(168 084 06)	168 084 06)	15 411 51	183 495 57
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	<u>(5 522 00)</u>	<u>(5 522 00)</u>	<u>(5 522 00)</u>	<u>-</u>
Total other financing sources (uses)	<u>(5 522 00)</u>	<u>(5 522 00)</u>	<u>(5 522 00)</u>	<u>-</u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(173 606 06)	(173 606 06)	9 889 51	183 495 57
 Fund balance, April 1	<u>173 606 06</u>	<u>173 606 06</u>	<u>220 922 80</u>	<u>47 316 74</u>
Fund Balance, March 31	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>230 812 31</u></u>	<u><u>230 812 31</u></u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

BUDGETARY COMPARISON SCHEDULE – ROAD FUND  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	50 132 88	50 132 88	52 416 08	2 283 20
Interest	<u>50 00</u>	<u>50 00</u>	<u>297 22</u>	<u>247 22</u>
Total revenues	<u>50 182 88</u>	<u>50 182 88</u>	<u>52 713 30</u>	<u>2 530 42</u>
Expenditures:				
Public works:				
Highways and streets	<u>50 838 42</u>	<u>50 838 42</u>	<u>49 866 69</u>	<u>(971 73)</u>
Total expenditures	<u>50 838 42</u>	<u>50 838 42</u>	<u>49 866 69</u>	<u>(971 73)</u>
Excess (deficiency) of revenues over expenditures	655 54	655 54	2 846 61	3502 15
Fund balance, April 1	<u>655 54</u>	<u>655 54</u>	<u>50 788 42</u>	<u>50 132 88</u>
Fund Balance, March 31	<u>-</u>	<u>-</u>	<u>53 635 03</u>	<u>53 635 03</u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

BUDGETARY COMPARISON SCHEDULE – LIBRARY FUND  
Year ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Over (Under)
Revenues:				
Property taxes	17 800 00	18 929 22	18 929 22	-
State revenue sharing	3 550 00	3 550 00	3 249 32	(300 68)
Penal fines	16 730 00	16 730 00	16 688 32	(41 68)
Interest	55.00	55.00	45.74	(9.26)
Miscellaneous	450.00	670.00	1163.30	493.30
Total revenues	38 585 00	39 934 22	40 075 90	141 68
Expenditures:				
Culture and recreation:				
Library	44 855 00	46 736 22	46 681 51	(54 71)
Total expenditures	44 855 00	46 736 22	46 681 51	(54 71)
Excess (deficiency) of revenues over expenditures	(6 270 00)	(6 802 00)	(6 605 61)	196 39
Other financing sources (uses):				
Operating transfers in	4 990 00	5 522 00	5 522 00	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	4 990 00	5 522 00	5 522 00	-
Excess (deficiency) of revenues and other sources over expenditures and other uses	(1 280 00)	(1 280 00)	(1 083 61)	196.39
Fund balance, April 1	1 280 00	1 280 00	1 925 47	645 47
Fund Balance, March 31	-	-	841 86	841 86

TOWNSHIP OF ELK  
Sanilac County, Michigan

**BUDGETARY COMPARISON SCHEDULE – CEMETERY OPERATION**  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Charges for service	200 00	200 00	300.00	100.00
Interest	50 00	50 00	241 96	191 96
Miscellaneous	<u>220 00</u>	<u>220 00</u>	<u>1664 00</u>	<u>1444 00</u>
Total revenues	<u>470 00</u>	<u>470 00</u>	<u>2 205 96</u>	<u>1 735 96</u>
Expenditures:				
General government:				
Cemetery	<u>10 567 07</u>	<u>10 567 07</u>	<u>5 831 56</u>	<u>(4 735 51)</u>
Total expenditures	<u>10 567 07</u>	<u>10 567 07</u>	<u>5 831 56</u>	<u>(4 735 51)</u>
Excess (deficiency) of revenue over expenditures	(10 097 07)	(10 097 07)	(3 625 60)	6 471 47
Other financing sources (uses):				
Operating transfers in	500 00	500 00	1 282 50	782 50
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>500 00</u>	<u>500 00</u>	<u>1 282 50</u>	<u>782 50</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(9 597 07)	(9 597 07)	(2 343 10)	7 253 97
Fund balance, April 1	<u>9 597 07</u>	<u>9 597 07</u>	<u>9 097 07</u>	<u>(500 00)</u>
Fund Balance, March 31	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>6 753 97</u></u>	<u><u>6 753 97</u></u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Township Board:	
Salaries	2 635 92
Benefits	348 86
Office Supplies	1 634 33
Professional services	2 961 06
Membership and dues	665 49
Telephone	361 61
Printing and publishing	3 435 65
Miscellaneous	295 00
	<u>12 337 92</u>
Supervisor:	
Salary	<u>2720 72</u>
Elections:	
Miscellaneous	<u>1 022 51</u>
Clerk:	
Salary	<u>8 786 40</u>
Assessor:	
Salary	<u>10 000 00</u>
Board of Review:	
Salaries	445 50
Printing and publishing	301 49
	<u>746 99</u>
Treasurer:	
Salary	8 786 40
Deputy	659 37
	<u>9 445 77</u>
Building and grounds:	
Utilities	2 765 96
Maintenance	11 626 27
Miscellaneous	382 67
	<u>14 774 90</u>
Unallocated insurance	<u>7 829 00</u>
Fire protection:	
Salaries	10 670 00
Gas and oil	1 284 70
Supplies	9 987 04
Repairs and maintenance	5 770 79
Telephone	240 00
Insurance	11 879 00
Utilities	1 437 05
Training	1 829 00
Miscellaneous	1 122 63
	<u>44 220 21</u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Planning and zoning: Salaries	<u>810 00</u>
Highways and streets	<u>624 75</u>
Drains at large	<u>1 395 43</u>
Library:	<u>205 03</u>
Capital outlay	<u>76 225 00</u>
Total Expenditures	<u><u>191 144 63</u></u>

TOWNSHIP OF ELK  
Sanilac County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year Ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>85 141 74</u>	<u>839 574 78</u>	<u>835 607 13</u>	<u>89 109 39</u>
<u>Liabilities</u>				
Due to other funds	85 141 74	94 564 34	91 460 01	88 246 07
Due to other taxing units	<u>-</u>	<u>745 010 44</u>	<u>744 147 12</u>	<u>863 32</u>
Total Liabilities	<u>85 141 74</u>	<u>839 574 78</u>	<u>835 607 13</u>	<u>89 109 39</u>



# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

May 30, 2006

To the Township Board  
Township of Elk  
Sanilac County, Michigan

We have audited the financial statements of the Township of Elk for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Elk in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board  
Township of Elk  
Sanilac County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **GASB 34 IMPLEMENTATION**

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended March 31, 2006. The implementation of this pronouncement for the Township of Elk began with the year ended March 31, 2006. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

#### **ASSESSOR CONTRACT**

During the audit, a contract for the assessor services could not be located. We recommend that a new contract for the assessing services be obtained. We also recommend that payment for assessing services be made only from the presentation of written invoices.

To the Township Board  
Township of Elk  
Sanilac County, Michigan

FIRE WAGES

Through the audit procedures we found that the Township was paying firemen's wages to a firemen's association. We recommend that the Township pay the wages directly to the individual firemen.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2005.

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & CO, P.C*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants